

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders SAVVIS Communications Corporation

We have audited the accompanying consolidated balance sheets of SAVVIS Communications Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SAVVIS Communications Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SAVVIS Communications Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2005, expressed an unqualified opinion thereon.

Ernst & Young LLP

St. Louis, Missouri
March 1, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
SAVVIS Communications Corporation
Herndon, Virginia

We have audited the accompanying consolidated statements of operations, cash flows, and changes in stockholders' (deficit)/equity of SAVVIS Communications Corporation and subsidiaries (SAVVIS) for the year ended December 31, 2002. These financial statements are the responsibility of the management of SAVVIS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of SAVVIS Communications Corporation and subsidiaries for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, in 2002, SAVVIS changed its method of accounting for goodwill to conform with Statement of Financial Accounting Standards No. 142.

Deloitte & Touche LLP

McLean, Virginia
February 6, 2003

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	DECEMBER 31,	
	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 55,369	\$ 28,173
Trade accounts receivable, less allowance for credits and uncollectibles of \$13,750 and \$2,975 in 2004 and 2003, respectively	48,050	11,305
Prepaid expenses	9,733	2,467
Other current assets	5,271	2,682
Total Current Assets	118,423	44,627
Property and equipment, net	264,542	59,357
Restricted cash	—	7,843
Intangibles, net	15,218	4,898
Other non-current assets	8,067	7,898
Total Assets	\$ 406,250	\$ 124,623
LIABILITIES AND STOCKHOLDERS' (DEFICIT)/EQUITY		
Current Liabilities		
Payables and other trade accruals	\$ 50,350	\$ 26,771
Capital lease obligations, current	505	315
Other accrued liabilities	66,150	22,629
Total Current Liabilities	117,005	49,715
Capital lease obligations, net of current portion	113,529	56,587
Long-term debt	171,051	—
Other accrued liabilities	68,606	19,248
Total Liabilities	470,191	125,550
COMMITMENTS AND CONTINGENCIES (NOTE 18)		
Stockholders' (Deficit)/Equity		
Convertible Series A Preferred stock at accreted value; 210,000 shares authorized, 203,070 shares issued in 2004 and 2003; 202,490 and 203,070 shares outstanding in 2004 and 2003, respectively	272,137	243,334
Convertible Series B Preferred stock; \$0.01 par value, 11,000,000 shares authorized; 6,552,886 shares issued and converted into Common Stock in 2004.	—	—
Common stock; \$0.01 par value, 1,500,000,000 shares authorized, 180,361,264 and 96,478,900 shares issued in 2004 and 2003; 180,329,963 and 96,447,599 shares outstanding in 2004 and 2003, respectively	1,804	965
Additional paid-in capital	384,847	330,890
Accumulated deficit	(721,263)	(572,465)
Deferred compensation	(515)	(1,438)
Treasury stock, at cost, 31,301 shares in 2004 and 2003, respectively	(16)	(16)
Accumulated other comprehensive loss:		
Cumulative foreign currency translation adjustment	(935)	(2,197)
Total Stockholders' (Deficit)/Equity	(63,941)	(927)
Total Liabilities and Stockholders' (Deficit)/Equity	\$ 406,250	\$ 124,623

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
Total Revenues⁽¹⁾	\$ 616,823	\$ 252,871	\$ 236,004
Data communications and operations expenses ⁽²⁾	437,963	163,606	162,078
Gross Margin	178,860	89,265	73,926
Sales, general, and administrative expenses ⁽³⁾	164,483	90,498	67,821
Integration costs	27,675	—	—
Depreciation, amortization, and accretion	72,065	55,346	60,621
Asset impairment and other write-downs of assets	—	—	4,684
Restructuring charges	—	7,903	—
Loss on sale of data center	—	8,106	—
Non-cash equity-based compensation ⁽⁴⁾	11,086	13,989	10,952
Total Other Operating Expenses	275,309	175,842	144,078
Loss from Operations	(96,449)	(86,577)	(70,152)
Non-Operating Income/(Expenses)			
Net interest expense and other	(52,349)	(7,456)	(11,003)
Gain on extinguishment of debt	—	—	97,859
Total Non-Operating Income/(Expenses)	(52,349)	(7,456)	86,856
Income/(Loss) from Operations Before Cumulative Effect			
of Change in Accounting Principle	(148,798)	(94,033)	16,704
Cumulative effect of change in accounting principle (Note 2)	—	—	(2,772)
Net Income/(Loss)	(148,798)	(94,033)	13,932
Accreted and deemed dividend on Series A Preferred stock	(37,247)	(33,323)	(74,498)
Net Loss Attributable to Common Stockholders	\$ (186,045)	\$ (127,356)	\$ (60,566)
Basic and Diluted Loss Per Common Share Before Cumulative			
Effect of Change in Accounting Principle ⁽⁵⁾	\$ (1.64)	\$ (1.34)	\$ (0.62)
Cumulative effect of change in accounting principle	—	—	(0.03)
Basic and Diluted Loss Per Common Share	\$ (1.64)	\$ (1.34)	\$ (0.65)
Weighted Average Common Shares Outstanding⁽⁵⁾	113,711,188	94,738,124	93,558,891

- (1) Includes \$78.0 million, \$82.7 million, and \$104.7 million from affiliates as defined in Note 17 for the years ended 2004, 2003, and 2002, respectively.
- (2) Excludes \$0.1 million, \$2.0 million, and \$1.5 million of non-cash equity-based compensation for the years ended 2004, 2003, and 2002, respectively, as well as exclusive of depreciation, amortization, and accretion included separately below.
- (3) Excludes \$10.9 million, \$8.6 million, and \$9.4 million of non-cash equity-based compensation for the years ended 2004, 2003, and 2002, respectively, as well as exclusive of depreciation, amortization, and accretion included separately below.
- (4) Includes \$10.3 million and \$3.4 million of non-cash equity-based compensation relating to the vesting of certain Constellation Ventures performance warrants for the years ended 2004 and 2003, respectively, as discussed in Note 5.
- (5) As the effects of including the incremental shares associated with options, warrants, and convertible Series A Preferred stock are anti-dilutive, they are not included in the diluted weighted average common shares outstanding.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' (DEFICIT)/EQUITY

<i>(in thousands)</i>	CONVERTIBLE SERIES A PREFERRED STOCK	CONVERTIBLE SERIES B PREFERRED STOCK	COMMON STOCK
Balance at December 31, 2001	\$ —	\$ —	\$ 940
Net income			
Foreign currency translation adjustments			
Comprehensive income			
Issuance of Series A Preferred stock	203,070		
Offering costs of Series A Preferred stock	(2,939)		
Proceeds of Series A Preferred stock issuance allocated to beneficial conversion feature	(52,690)		
Deemed dividends on Series A Preferred stock	74,498		
Beneficial conversion feature of deemed dividends on Series A Preferred stock	(4,933)		
Issuance of warrants			
Recognition of deferred compensation costs			
Issuance of Common and/or Treasury stock upon exercise of stock options			1
Balance at December 31, 2002	217,006	—	941
Net loss			
Foreign currency translation adjustments			
Comprehensive loss			
Deemed dividends on Series A Preferred stock	33,323		
Beneficial conversion feature of deemed dividends on Series A Preferred stock	(6,918)		
Legal fees related to the issuance of Series A Preferred stock	(77)		
Recognition of deferred compensation costs			
Issuance of Common and/or Treasury stock upon exercise of stock options			24
Issuance of warrants			
Issuance of immediately vested stock options with exercise price below market value on date of grant			
Balance at December 31, 2003	243,334	—	965
Net loss			
Foreign currency translation adjustments			
Comprehensive loss			
Deemed dividends on Series A Preferred stock	37,247		
Beneficial conversion feature of deemed dividends on Series A Preferred stock	(7,749)		
Conversion of Series A Preferred stock	(695)		9
Issuance of Series B Preferred stock		66	
Vesting of performance warrants			
Common stock warrant exercises			95
Issuance of Common stock upon exercise of stock options			35
Recognition of deferred compensation costs			
WAMINET earn-out payment			44
Conversion of Series B Preferred stock		(66)	656
Balance at December 31, 2004	\$272,137	\$ —	\$1,804

See the following page for share information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	DEFERRED COMPENSATION	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
\$356,443	\$(492,364)	\$(21,122)	\$(19)	\$ (464)	\$(156,586)
	13,932				13,932
				(1,620)	(1,620)
					12,312
					203,070
					(2,939)
52,690					—
(74,498)					—
4,933					—
10,053					10,053
2,101		8,852			10,953
50			3		54
351,772	(478,432)	(12,270)	(16)	(2,084)	76,917
	(94,033)				(94,033)
				(113)	(113)
					(94,146)
(33,323)					—
6,918					—
					(77)
(243)		10,832			10,589
1,405					1,429
3,400					3,400
961					961
330,890	(572,465)	(1,438)	(16)	(2,197)	(927)
	(148,798)				(148,798)
				1,262	1,262
					(147,536)
(37,247)					—
7,749					—
686					—
65,806					65,872
10,338					10,338
(95)					—
2,136					2,171
(176)		923			747
5,350					5,394
(590)					—
\$384,847	\$(721,263)	\$ (515)	\$(16)	\$ (935)	\$ (63,941)

**CONSOLIDATED STATEMENT OF CHANGES IN
STOCKHOLDERS' (DEFICIT)/EQUITY (CONTINUED)**

	NUMBER OF SHARES			
	CONVERTIBLE SERIES A PREFERRED STOCK	CONVERTIBLE SERIES B PREFERRED STOCK	COMMON STOCK	TREASURY STOCK
Balance at December 31, 2001	—	—	93,957,229	38,876
Issuance of Series A Preferred stock	203,070			
Issuance of Common and/or Treasury stock upon exercise of stock options			102,727	(7,301)
Balance at December 31, 2002	203,070	—	94,059,956	31,575
Issuance of Common and/or Treasury stock upon exercise of stock options			2,418,944	(274)
Balance at December 31, 2003	203,070	—	96,478,900	31,301
Conversion of Series A Preferred stock	(580)		927,594	
Issuance of Series B Preferred stock		6,552,886		
Common stock warrant exercises			9,547,143	
Issuance of Common stock upon exercise of stock options			3,457,279	
WAMINET earn-out payment			4,421,488	
Conversion of Series B Preferred stock		(6,552,886)	65,528,860	
Balance at December 31, 2004	202,490	—	180,361,264	31,301

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
OPERATING ACTIVITIES			
Net income/(loss)	\$(148,798)	\$(94,033)	\$ 13,932
Reconciliation of net income/(loss) to net cash used in operating activities:			
Gain on extinguishment of debt	—	—	(97,859)
Asset impairment and other write-downs of assets	—	—	4,684
Restructuring charges	—	7,903	—
Loss on sale of data center	—	8,106	—
Cumulative effect of change in accounting principle	—	—	2,772
Accrued interest	50,899	6,996	8,794
Depreciation, amortization, and accretion	72,065	55,346	60,621
Non-cash equity-based compensation	11,086	13,989	10,952
Net changes in operating assets and liabilities, net of acquisition:			
Trade accounts receivable	(8,309)	3,812	1,266
Prepaid expenses and other current assets	8,239	(1,339)	663
Other non-current assets	3,093	1,675	2,273
Payables and other trade accruals	(3,437)	(4,245)	(35,589)
Other accrued liabilities	(11,595)	1,505	(17,477)
Net cash used in operating activities	(26,757)	(285)	(44,968)
INVESTING ACTIVITIES			
Capital expenditures	(31,308)	(18,824)	(5,669)
Acquisition, net of cash received	(116,477)	—	—
Proceeds from sale of acquired assets	3,338	—	—
Purchase of WAM!NET assets	(1,690)	(3,118)	—
Proceeds from sale of data center	—	35,000	—
Net cash provided by/(used in) investing activities	(146,137)	13,058	(5,669)
FINANCING ACTIVITIES			
Issuance of Series A Preferred stock, net of issuance costs	—	—	97,161
Issuance of subordinated debt and associated warrants	200,000	—	—
Deferred subordinated debt issuance costs	(625)	—	—
Net changes in restricted cash	7,973	(1,459)	—
Payments under capital lease obligations	(10,052)	(15,769)	(9,980)
Repayment of borrowings	—	—	(14,297)
Other	2,171	1,429	(2,268)
Net cash provided by/(used in) financing activities	199,467	(15,799)	70,616
Effect of exchange rate changes on cash and cash equivalents	623	(960)	(2,225)
Net Increase/(Decrease) in Cash and Cash Equivalents	27,196	(3,986)	17,754
Cash and Cash Equivalents, Beginning of Year	28,173	32,159	14,405
Cash and Cash Equivalents, End of Year	\$ 55,369	\$ 28,173	\$ 32,159
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 2,326	\$ 304	\$ 1,111
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Issuance of Series A preferred stock in settlement of debt	\$ —	\$ —	\$102,970
Accrual of WAM!NET earn-out (Note 5)	3,837	4,600	—
Issuance of common stock for WAM!NET earn-out	(5,394)	—	—
Assets and obligations acquired under capital leases (Note 3)	52,000	—	—

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollars in thousands, except per share amounts)

NOTE 1—NATURE OF OPERATIONS

ORGANIZATION AND BUSINESS—SAVVIS Communications Corporation, a Delaware corporation, together with its wholly-owned subsidiaries, are referred to herein collectively as the "Company" and "SAVVIS." SAVVIS is a global information technology services company delivering integrated hosting, network, voice, digital content management, and professional services to organizations in the financial services, media, retail, professional services, healthcare and manufacturing sectors.

In February 2000, the Company completed an initial public offering of shares of its common stock at \$24.00 per share.

In 2002, the Company executed a recapitalization which included the issuance of approximately \$203.1 million of convertible Series A Preferred stock to entities and individuals associated with Welsh Carson Anderson & Stowe (Welsh Carson), a group of funds (Constellation Ventures), Reuters plc (Reuters) and to various vendors.

In August 2003, the Company purchased the commercial business operations assets of WAMINET, Inc., a global provider of content management and delivery services, for \$11.4 million based on the revenue derived from the acquired customers. The Company issued 4.4 million shares of common stock in payment of approximately 50% of the total purchase price.

In March 2004, the Company purchased substantially all of the assets of Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, Inc. together with the assets of certain of their affiliates (Cable & Wireless America or CWA). The total cash cost of the CWA assets prior to the assumption of liabilities was \$116.5 million. To finance the purchase and to fund working capital and capital expenditure requirements of CWA, in February 2004, the Company issued \$200.0 million of Series A Subordinated Notes due 2009 and warrants to purchase shares of the Company's Series B Convertible Preferred Stock to a group of investors, including entities and individuals affiliated with Welsh Carson and Constellation Ventures. The warrants were exercised immediately on a cashless basis, and in December 2004, were converted into 65,528,860 million shares of the Company's common stock.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. On March 5, 2004, the Company through a wholly owned subsidiary secured all regulatory approvals and closed its acquisition of CWA. The results of CWA are included in the consolidated financial statements since the date of acquisition.

Cash and Cash Equivalents

The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts and other investments with an original maturity of three months or less, that the Company may hold from time to time, as cash and cash equivalents.

Restricted Cash

Restricted cash consists of amounts supporting outstanding letters of credit, principally related to office space. Prior to September 2004, the Company's Letter of Credit Facility required collateralization. Subsequently, this requirement was removed. As a result, the bank released its lien on the cash held as collateral for the letters of credit, and previously restricted cash was reclassified to unrestricted cash.

Property and Equipment

Communications and data center equipment, office equipment and other equipment is recorded at cost and depreciated using the straight-line method over estimated useful lives of three to fifteen years. Facilities and leasehold improvements are amortized over the shorter of their estimated useful lives or the initial term of the related lease, which is two to fifteen years.

Equipment under Capital Leases

The Company leases certain of its data communications equipment and other fixed assets under capital lease agreements. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Assets under these capital leases are amortized over the terms of the leases, which approximate the useful lives of the assets of three to five years.

Valuation of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets under the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 requires the review for impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable and exceeds its fair value.

When such an event occurs, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. These impairment evaluations involve estimates of asset useful lives and future cash flows. If the undiscounted expected future cash flows are less than the carrying amount of the asset and the carrying amount of the asset exceeds its fair value, an impairment loss is recognized. Management utilizes an expected present value technique, which uses a risk-free rate and multiple cash flow scenarios reflecting the range of possible outcomes, to estimate fair value of the asset. Actual useful lives and cash flows could differ from those estimated by management using these techniques, which could have a material effect on our results of operations and financial position.

There were no asset impairment charges in 2004 or in 2003. During 2002, the Company recognized asset impairment charges of \$4.7 million, primarily related to equipment with carrying value above its estimated fair market value.

Intangible Assets

The Company accounts for its intangible assets in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141), as applicable.

Identifiable intangible assets include: trademarks, patents, customer relationships, software and peering agreements. Useful lives of these specifically identified intangible assets are: indefinite years for trademarks; eleven to fifteen years for patents; three to four years for customer relationships; five years for software; and seven years for peering agreements. Details of the components of intangible assets as of the balance sheet date are in Note 7.

In accordance with SFAS 142, in the first quarter of 2002 the Company assessed the goodwill in the consolidated balance sheet and determined that the goodwill was impaired. As a result, the Company recorded a \$2.8 million charge in 2002 which is reflected in the consolidated statement of operations as a cumulative effect of change in accounting principle. The Company currently does not have any goodwill recorded.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable, restricted cash, accounts payable and accrued liabilities approximate their fair values.

Asset Retirement Obligations

The Company records any identified asset retirement obligations and the associated asset retirement cost in accordance with Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). The value of the obligation is assessed as the present value of the expected future payments to retire the assets. The Company's asset retirement obligations relate primarily to costs to remove leasehold improvements and return leased space to its original condition. The Company only recognized estimated cash flows related to legal obligations as defined in SFAS 143. The associated cost of the asset retirement obligation are capitalized and depreciated over their appropriate useful lives as further discussed in Note 15.

Revenue Recognition

Revenue consists primarily of managed IP VPN, hosting, other network services, and digital content management revenue, which are recognized when earned over the term of the contract or as services are delivered. Installation fee revenue and the associated installation costs are deferred in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104). Such deferred revenue and costs are recognized into revenue and data communications and operations costs in the consolidated statements of operations on a straight-line basis over approximately two years, the estimated average life of a customer contract. For all periods, any services billed and payments received in advance of providing services are deferred until the period such services are earned. Revenue for estimated credits to be issued is recorded as a reduction of revenue based on historical credits issued and known disputes.

Trade Receivables

The Company classifies amounts owed to the Company and due within twelve months, arising from the sale of goods or services in the normal course of business, as trade receivables.

Allowance for Credits and Uncollectibles

The Company continuously monitors collections from its customers and maintains a provision for estimated credit losses based upon historical experience and specific customer information. The policy for determining delinquent account status is based on how recently payments have been received. An estimate of service credits to be issued is also maintained based on the Company's historical experience and its knowledge of any specific service interruptions.

Data Communication and Operations Expenses

In the ordinary course of business, invoices from communications service providers may exceed amounts the Company believes it owes. The Company's practice is to identify these variances and engage in discussions with the vendors to resolve the disputes. Accruals are maintained for the best estimate of the amount that will ultimately be paid. Variations in the Company's estimate and ultimate settlement of vendor billings may have a material impact on the Company's results of operations. Other operations expenses include rental costs, utilities, other operating costs for hosting space, as well as salaries and related benefits for engineering, service delivery/provisioning, customer service and operations personnel. Indefeasible Rights of Use (IRUs) maintenance and operations costs are also reflected in this category.

Operating Leases

The Company has various operating leases for facilities and equipment. Equipment lease terms are approximately three years, and the facility leases range from three to twenty years. These facility leases include rent increases and, in certain cases, rent holidays. Any applicable rent increases or rent holidays are recorded on a straight-line basis over the initial lease term. Leasehold improvements are amortized over the initial lease term of the applicable lease.

Depreciation, Amortization and Accretion

Depreciation and amortization expense consists primarily of the depreciation and amortization of communications equipment, capital leases, and intangibles. Generally, depreciation and amortization is calculated using the straight-line method over the useful life of the associated asset, which ranges from two to fifteen years. Subsequent to the CWA acquisition, accretion expenses related to aging of the discounted present value of various liabilities, including asset retirement obligations and fair value adjustments for contracts and capital leases, are included in this line item.

Integration Costs

Integration costs represent the incremental costs of combining the CWA and SAVVIS organizations, including rationalization of facilities, retention bonuses, integration consulting by third parties, which provide current or future benefit to the combined company. These costs are direct incremental costs incurred to obtain the synergies of the combined companies and are not expected to continue once the Company has completed its integration plan.

Employee Stock Options

As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, compensation expense is recognized based on the intrinsic value of the equity instrument awarded as determined at the measurement date. Compensation expense was recognized related to option grants accounted for in accordance with APB 25 in the amounts of \$0.7 million, \$10.6 million, and \$11.0 million during the years ended 2004, 2003, and 2002, respectively.

Pro forma information regarding net income has been determined as if the Company had accounted for its stock options granted to employees and non-employee members of its Board of Directors under the fair value method of SFAS 123. The fair value of options was estimated at the date of grant utilizing Black-Scholes. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods on a straight line basis.

Had compensation cost for the Company's stock options been determined consistent with the provisions of SFAS 123 based on the fair value at the grant date, the Company's pro forma net loss would have been as follows:

	2004	2003	2002
Net loss attributable to common stockholders			
As reported	\$(186,045)	\$(127,356)	\$(60,566)
Adjustment to net loss for:			
Stock based compensation expense	748	10,589	10,952
Pro forma stock based compensation	(5,624)	(14,021)	(12,636)
Pro forma net loss	\$(190,921)	\$(130,788)	\$(62,250)
Basic and diluted net loss per common share			
As reported	\$ (1.64)	\$ (1.34)	\$ (0.65)
Pro forma	\$ (1.68)	\$ (1.38)	\$ (0.67)

For the years ended December 31, 2004, 2003, and 2002, average assumptions used in the determination of the fair value of the stock options include the following:

	2004	2003	2002
Expected volatility	109.8%	78.6%	78.6%
Risk free interest rate	3.1%	5.2%	5.2%
Dividend yield	0.0%	0.0%	0.0%
Expected option life (in years)	4	4	4

Income Taxes

Income taxes are accounted for under the asset and liability method, which provides for the establishment of deferred tax assets and liabilities for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes, applying the enacted statutory tax rates in effect for the years in which differences are expected to reverse. Valuation allowances are established when it is more likely than not the deferred tax assets will not be realized. The Company has provided a full valuation allowance on tax loss carry-forwards and other potential tax benefits according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" because the future realization of the tax benefit is uncertain. As a result, to the extent that those benefits are realized in future periods, they will favorably affect net income. At December 31, 2004, the Company has approximately \$550.5 million in United States net operating loss carry-forwards expiring between 2011 and 2023, of which it estimates \$253.2 million is subject to the Section 382 limitation of the Internal Revenue Code.

Foreign Currency

Results of operations of our foreign subsidiaries are translated from the designated functional currency to the United States dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are included in accumulated other comprehensive loss, a separate component of stockholders' (deficit)/equity.

Loss Per Share

All loss per share amounts for all periods have been presented to conform to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share." All stock options, warrants, and convertible Series A Preferred shares outstanding have been excluded from the computations of diluted loss per share, as their effect would be anti-dilutive. Accordingly, there is no reconciliation between basic and diluted loss per share for the periods presented.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company periodically reviews the credit quality of its customers and generally does not require collateral.

Reclassifications

Certain amounts from prior periods have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates used in the Company's financial statements include accruals for commercial disputes and billing errors by vendors, allowance for credits and uncollectibles, valuation of the Subordinated Notes and warrants, valuation of the fair value of various liabilities associated with the CWA acquisition, valuation of long-lived assets, and the valuation of intangible assets.

New Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," effective July 1, 2005, which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, only recognizes compensation cost for employee stock options to the extent that options have been issued below the fair market value of the underlying stock on the date of grant. Accordingly, the adoption of Statement 123's fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income above.

NOTE 3—CWA ACQUISITION

In January 2004, the Company signed a definitive agreement to purchase substantially all of the assets of CWA. CWA, wholly-owned by Cable and Wireless PLC, provided a range of network and hosting services, including Internet access to a Tier 1 IP network, colocation, hosting and other value-added services such as managed security and content distribution. The transaction, following approval by the U.S. Bankruptcy Court and other federal regulatory agencies, closed on March 5, 2004. The results of CWA are included in the consolidated financial statements since the closing date of the acquisition.

The total purchase price consisted of \$155.0 million in cash, the assumption of certain liabilities and leases for certain data centers and other facilities, and the funding of CWA's working capital losses from January 28, 2004, through March 5, 2004, which totaled \$13.5 million. Additionally, the Company entered into an agreement to transfer its rights at closing to acquire four of the CWA data centers and one office facility to Du Pont Fabros Interests LLC (Du Pont Fabros) for \$52.0 million paid directly to the

CWA bankruptcy estate. The Company subsequently leased those facilities back from Du Pont Fabros for 15 years. As a result, the total cash cost of the CWA assets prior to the assumption of liabilities, was \$116.5 million.

The acquisition has been accounted for as a purchase under SFAS 141. The allocation of the purchase price is preliminary. Final adjustments are not expected to materially change the purchase price allocation as reflected below.

PRELIMINARY ALLOCATION AS OF DECEMBER 31, 2004	
Trade accounts receivable	
and other current assets	\$ 45,113
Property and equipment	178,647
Intangible assets	11,793
Other non-current assets	3,565
Trade accounts payable	
and other current liabilities	(67,477)
Capital leases	(1,756)
Other long-term liabilities	(53,408)
Acquisition Cost	\$116,477

The estimated fair value of CWA assets acquired and liabilities assumed exceeded the acquisition cost. Therefore, in accordance with SFAS 141, the excess value over the acquisition cost has been allocated as a pro rata reduction of non-current assets, which are property and equipment and intangibles.

The amount reflected in the preliminary purchase price allocation represents the Company's current estimate of the liabilities relating to contractual agreements. Additionally, the liabilities assumed by the Company included adjustments to properly reflect the fair market value of long term facility leases (\$12.3 million); the idle capacity related to a long-term IRU operations, maintenance and power contract (\$16.3 million); the cost of leased facilities that will remain idle (\$22.0 million); and the obligation to rehabilitate the long term lease spaces at varying lease termination dates (\$16.7 million). These liabilities are not a result of an exit plan; rather, they relate solely to properly reflecting the fair value of assets and liabilities assumed.

The fair market value of the long-term facility leases was calculated considering the difference between fair market rents and contractually required rents in addition to any inherited "dark space" that the Company does not expect to use. Contracts have been reflected at their fair market value of the service to be provided at the time of the acquisition, in addition to any inherited purchase commitments the combined entity does not plan to use. The asset retirement obligation liability was calculated and recorded at the present value of expected future payments required to restore the leased space to its original condition.

The Company had \$6.3 million of involuntary employee termination costs accrued in the opening balance sheet as a liability. The Company paid \$5.4 million in severance payments during the year ended December 31, 2004. The Company adjusted its severance estimate in December 2004, to reflect an additional group of employees and the actual payments for insurance and outplacement services during the year. The Company expects to pay \$0.9 million in the first quarter of 2005, which is the remaining balance at December 31, 2004. These costs meet the definition of costs to exit an activity of an acquired company as defined in Emerging Issues Task Force 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Management began to formulate a plan to terminate all redundant positions as of the acquisition date. In total, approximately 300 employees have been or will be terminated in various departments. The details of the severance package have been finalized and include the costs of severance, insurance, and outplacement services. Substantially all employee terminations are expected to be completed by March 31, 2005.

The following unaudited pro forma financial information presents the combined results of operations of the Company and CWA, as if the acquisition had occurred as of the beginning of each fiscal period presented, giving effect to certain adjustments, including depreciation, accretion, interest, the issuance of Series B Convertible Preferred Stock and the issuance of additional debt. The pro forma financial information does not necessarily represent the results of operations that would have occurred had the Company and CWA been a single entity during such period. The Company does not believe that the pro forma information is representative of the results of the combined business if it had been under the Company's management during that time. The pro forma results for the year ended December 31, 2003 include approximately \$124.7 million for restructuring charges.

PRO FORMA	FOR THE YEAR ENDED DECEMBER 31,	
	2004	2003
Revenue	\$ 679,330	\$ 771,809
Net loss	(174,388)	(525,906)
Basic and diluted net loss per common share	\$ (1.86)	\$ (5.90)

Net loss before extraordinary items is equal to net loss, in total and on a per share basis and, therefore, is not disclosed separately.

NOTE 4—LONG-TERM DEBT

In the first quarter of 2004, the Company issued \$200.0 million of its Series A Subordinated Notes (Subordinated Notes). The proceeds were used to fund the CWA acquisition and to fund the on-going operational, working capital and capital expenditure requirements of the Company related to the CWA acquisition. The debt issuance costs associated with the Subordinated Notes were \$2.0 million and are classified as other non-current assets on the consolidated balance sheet. These costs consist of fees paid to the purchasers of the Subordinated Notes and are amortized to interest expense using the effective interest method until the maturity date of the Subordinated Notes. The Subordinated Notes accrue interest based on a 365 day year at a rate of 12.5% per annum until February 3, 2005 and 15% per annum thereafter, payable in kind semi-annually on June 30 and December 31. The Subordinated Notes contain an early redemption feature, a make whole premium and a change of control clause. Upon a change of control the holders of the Subordinated Notes have the right to require the Company to redeem any or all of the Subordinated Notes at a cash price equal to 100% of the principal amount of the Subordinated Notes, plus all accrued and unpaid interest as of the effective date of a change in control. The Subordinated Notes mature in a single installment on February 9, 2009.

The paid in kind interest is settled by the semi-annual issuance of new subordinated notes equal to the accrued interest payable at the time of settlement. The face amount of the original Subordinated Notes plus any notes issued for accrued interest is \$226.8 million as of December 31, 2004.

Warrants immediately exercisable for Series B Convertible Preferred Stock (Series B Preferred) were also issued with the Subordinated Notes. The \$200.0 million in proceeds were allocated between Subordinated Notes and Series B Preferred based on their relative fair values resulting in an Original Issue Discount of \$65.9 million. The allocated value of the Subordinated Notes at date of issuance plus accrued interest on the \$200.0 million proceeds and accreted interest on the Original Issue Discount are reflected as long-term debt. The fair value of the Series B Preferred was determined with the assistance of an independent third party appraiser. The allocated fair value of the Series B Preferred is reflected in the accompanying financial statements as components of stockholder's (deficit)/equity in the amount of \$65.9 million in additional paid-in capital and \$0.1 million, the par value, in Series B Preferred.

The following table summarizes the long-term debt activity for the year ended December 31, 2004.

Proceeds from issuance of Subordinated Notes	\$200,000
Adjustment for the valuation of the Series B Preferred and warrants	(65,872)
Adjusted value of Subordinated Notes	134,128
Accrued interest on \$200,000 of Subordinated Notes	26,791
Accreted interest on Original Issue Discount	10,132
Balance of Subordinated Notes as of December 31, 2004	\$171,051
Fair value of Subordinated Notes as of December 31, 2004	\$210,362

NOTE 5—COMMON AND PREFERRED STOCK TRANSACTIONS

Common Stock

An initial public offering of the Company's common stock was completed in February 2000. A total of 17.0 million shares were sold in the offering at \$24 per share. The Company received net proceeds from this offering of approximately \$333 million.

In April 2004, the stockholders of SAVVIS approved an increase in the authorized common stock to 1.5 billion shares.

WAM!NET Transaction

On August 1, 2003, the Company entered into an asset purchase agreement with WAM!NET, a leading global provider of content management and delivery services, to acquire certain assets related to their commercial business operations, including their commercial customer contracts and related customer premise and other equipment. Under the terms of the agreement, the Company made an initial payment of \$3.0 million for the acquired assets. The final purchase price was determined during the third quarter of 2004 to be \$11.4 million based on the revenue derived from the acquired customers. The Company issued 4.4 million shares of common stock in payment of approximately 50% of the total purchase price. The Company is paying the balance in nine monthly installments of approximately \$0.3 million each through April 2005.

The purchase price of the assets was adjusted during 2004 to reflect an achievement of certain revenues derived from the acquired customers. The adjustment of \$3.8 million represented an increase in the expected earn-out payments to WAM!NET from \$4.6 million to \$8.4 million based on customer performance.

Warrants Outstanding

In connection with the Company's recapitalization in 2002, five-year warrants were issued to Nortel Networks, Inc. and General Electric Capital Corporation (GECC) to purchase approximately 6.4 million and 9.6 million shares, respectively, of the Company's common stock at \$0.75 per share. In the first quarter of 2004, GECC exercised their warrant pursuant to a "cashless exercise" and received approximately 7.0 million shares of the Company's common stock.

Additionally in 2002, the Company issued ten million five-year performance warrants to entities affiliated with Constellation Ventures (Constellation) to acquire shares of common stock at \$0.75 per share. The warrants vested in a total of three tranches as Constellation earned the right to exercise the warrants when it met certain performance criteria related to aiding the Company in obtaining new business. During the fourth quarter of 2003, the first quarter of 2004, and the second quarter of 2004, respectively, Constellation met the performance criteria, causing each of the three tranches for a total of 10.0 million warrants to vest, which resulted in non-cash equity-based compensation expense of \$3.4 million, \$6.6 million and \$3.8 million, with respect to each of the three tranches. The non-cash equity-based compensation expense was calculated using the Black-Scholes model and current market and company assumptions. In the first quarter of 2004, Constellation exercised their first tranche of vested warrants pursuant to a "cashless exercise" and received approximately 2.6 million shares of the Company's common stock.

Series A Convertible Preferred Stock

In 2002, the Company's Board of Directors authorized 210,000 shares of Series A Convertible Preferred Stock (Series A Preferred) and the Company issued 203,070 shares of Series A Preferred to entities and individuals affiliated with Welsh Carson, Constellation, Reuters, and other parties.

The Company incurred \$3.0 million in offering costs related to the issuance of the Series A Preferred, which was recorded as a reduction of the Series A Preferred Stock balance in stockholders' (deficit)/equity in the consolidated balance sheets.

The Series A Preferred accrues dividends at the rate of 11.5% per annum on the outstanding accreted value thereof (initially \$1,000 per share). Dividends may not be paid in cash until after the eighth anniversary of the original issuance date. Accrued but unpaid dividends are added to the outstanding accreted value quarterly. As of December 31, 2004, accrued and unpaid Series A Preferred dividends totaled \$72.1 million. The Series A Preferred is convertible into such number of shares of our common stock equal to the outstanding accreted value divided by the conversion price of \$0.75, equaling approximately 367 million common shares at December 31, 2004. The Series A Preferred is entitled to vote on all matters (other than any voluntary repurchase of the Series A Preferred) submitted to the common stockholders on an as-if-converted basis and represented approximately 64% of the voting stock of the Company as of December 31, 2004. The conversion price of \$0.75 was set a few days before the commitment date for the Series A Preferred was issued in March 2002. On the commitment date, the closing price of the Company's common stock was \$1.00. Accordingly, the Company recorded a non-cash beneficial conversion feature of \$52.7 million, representing the \$0.25 per share intrinsic value of that feature, as a return to the Series A Preferred stockholders in March 2002. The Company also recorded a non-cash beneficial conversion feature of \$7.7 million, \$6.9 million, and \$4.9 million related to accrued dividends for the years ended December 31, 2004, 2003, and 2002, respectively.

Below is a summary of Series A Preferred transactions as of December 31, 2004.

	SERIES A PREFERRED SHARES ISSUED	VALUE
ISSUANCE DATE		
March 2002	158,070	\$158,070
June 2002	22,400	22,400
September 2002	22,600	22,600
	203,070	203,070
Accrued dividends net of beneficial conversion feature		72,778
		275,848
Offering costs of Series A Preferred		(3,016)
Conversion of Series A Preferred into common stock		(695)
Balance of Series A Preferred as of December 31, 2004		\$272,137
Number of common shares Series A Preferred is convertible into based on the conversion price of \$0.75 at December 31, 2004		366,871,247

Series B Convertible Preferred Stock

During the first quarter of 2004, the Company's Board of Director's authorized 11.0 million shares of Series B Preferred at a \$.01 par value. In connection with the issuance of the Company's Subordinated Notes, the Company also issued warrants to purchase shares of the Series B Preferred to a group of investors that included existing stockholders related to Welsh Carson and Constellation. The warrants were exercised simultaneously upon issuance on a "cashless" basis into 6.6 million shares of Series B Preferred. On December 9, 2004, the Company issued approximately 65.5 million shares of common stock upon conversion of

the Series B Preferred. This common stock is not registered under the Securities Act and, therefore, may not be transferred or sold except pursuant to an effective registration statement or pursuant to an exemption from the registration requirement of the Securities Act. The Company granted Welsh Carson demand and piggy-back registration rights, and the Company granted the other holders piggy-back registration rights only.

Each share of Series B Preferred automatically converted into ten shares of common stock upon the effectiveness of stockholder approval, which occurred on December 9, 2004.

The following table summarizes the number of diluted common shares on an as converted basis as of December 31, 2004 and 2003.

NUMBER OF DILUTED COMMON SHARES	2004	2003
Common shares outstanding	180,329,963	96,447,599
Series A Preferred as converted	366,871,247	328,466,554
Warrants and options outstanding (treasury stock method)	29,723,925	12,058,540
Diluted common shares	576,925,135	436,972,693

NOTE 6—PROPERTY AND EQUIPMENT

Communications and data center equipment, office equipment, and other equipment is recorded at cost and depreciated using the straight-line method over estimated useful lives of three to fifteen years. Facilities and leasehold improvements are amortized over the shorter of their estimated useful lives or the initial term of the related lease, which is two to fifteen years. The following table represents the Company's property and equipment by category.

	USEFUL LIVES (IN YEARS)	DECEMBER 31,	
		2004	2003
Communications and data center equipment	5–15	\$ 374,765	\$ 278,436
Facilities and leaseholds	2–15	146,678	2,940
Office equipment and other	3–7	37,206	14,582
Total		558,649	295,958
Less: accumulated depreciation and amortization		(294,107)	(236,601)
Total		\$ 264,542	\$ 59,357

Property and equipment was increased during 2004 by \$178.6 million to reflect the purchase price allocation related to the CWA acquisition.

Depreciation expense was \$50.5 million, \$54.7 million, and \$60.6 million for the years ended 2004, 2003, and 2002, respectively. Amortization expense for equipment and facilities under capital leases was \$8.5 million, \$16.9 million, and \$15.7 million for the years ended 2004, 2003, and 2002, respectively. Accumulated amortization for equipment under capital leases was \$69.4 million and \$60.9 million for 2004 and 2003, respectively.

The Company prospectively changed its estimate of legacy SAVVIS' useful life for communications equipment from three to five years as of April 1, 2004. The review of appropriate useful life was performed in conjunction with the acquisition of CWA. CWA communications equipment assets were initially assigned a five-year useful life. The impact of this change was not material to the consolidated statements of operations included herein.

NOTE 7—INTANGIBLES

The table below shows the detail of the intangible asset balances as of December 31, 2004 and 2003.

	WEIGHTED AVERAGE AMORTIZATION PERIOD (IN YEARS)	USEFUL LIVES (IN YEARS)	DECEMBER 31,	
			2004	2003
Customer relationships	3.6	3–4	\$14,073	\$5,499
Other	7.3	5–15	6,343	—
Total			20,416	5,499
Less: accumulated amortization			(5,198)	(601)
Total	4.8		\$15,218	\$4,898

Intangibles were increased during 2004 by \$14.9 million to reflect the purchase price allocation related to the CWA acquisition and the finalization of the WAM!NET purchase agreement. During the third quarter of 2003, the Company recorded an intangible asset in the amount of \$5.5 million for the commercial customer contracts and other fees associated with the WAM!NET asset purchase agreement.

The Company recorded \$4.6 million and \$0.6 million in amortization expense for intangibles for the years ended 2004 and 2003, respectively. The estimated aggregate amortization expense for intangibles for the next five years is \$2.3 million for 2005–2007, \$1.0 million for 2008, and \$0.5 million for 2009.

The Company accounts for the identified intangible assets acquired in various transactions in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and Statement of Accounting Standards No. 141, "Business Combinations" (SFAS 141). Our intangible assets were acquired through the WAM!NET transaction or the CWA acquisition and, as such, were valued based on their estimated fair value relative to the estimated fair value of net assets received in the transactions. Identifiable intangible assets include: trademarks, patents, customer relationships, software, and peer- ing agreements. Useful lives of these specifically identified intangible assets are: indefinite for trademarks; eleven to fifteen years for patents; three to four years for customer relationships; five years for software, and seven years for peer- ing agreements.

NOTE 8—ASSET IMPAIRMENT, RESTRUCTURING CHARGES AND OTHER

In June 2003, the Company revised its estimated liability related to a previously vacated facility lease to encompass the remaining minimum lease payments throughout the full term of the lease which expires in March 2011, resulting in a restructuring charge of \$7.9 million or \$(0.08) per basic and diluted common share for the year ended December 31, 2003. During the year ended December 31, 2004, the Company paid \$1.0 million related to the exited property and has \$1.0 million current and \$5.4 million noncurrent remaining in the accrual at the end of the year.

In 2002, the Company recorded a \$3.7 million charge related to the write-down of unused equipment for which the Company has no future expected use and the equipment has no salvage value. Additionally in 2002, concurrent with Yipes Communications, Inc.'s (Yipes) filing of a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code, the Company recorded a \$1.0 million impairment charge related to its investment in Yipes.

NOTE 9—OTHER NON-CURRENT ASSETS

The following table summarizes the components of non-current assets as of December 31, 2004 and 2003.

	DECEMBER 31,	
	2004	2003
Sports arena naming rights	\$1,362	\$3,742
Deferred financing costs	4,532	3,352
Rent and other deposits	1,550	218
Other	623	586
	<u>\$8,067</u>	<u>\$7,898</u>

NOTE 10—CAPITAL LEASE OBLIGATIONS

The table below summarizes future minimum lease payments under capital leases as of December 31, 2004.

	DECEMBER 31, 2004
2005	\$ 15,858
2006	17,002
2007	66,249
2008	10,987
2009	11,307
Thereafter	120,774
Total capital lease obligations	242,177
Less amount representing interest	(128,143)
Less current portion	(505)
Capital lease obligations less current portion	<u>\$ 113,529</u>
Fair value of capital lease obligations	<u>\$ 116,928</u>

In March 2002, the Company entered into a \$56.5 million amended and restated master lease agreement with GECC. The balance of the amended lease is due on March 8, 2007. The majority of the Company's owned assets serve as collateral under the amended lease. The amended lease calls for excess cash flow, as defined, to be used first for the payment of any accrued and unpaid interest and second for the prepayment of principal on the capital leases. Furthermore, the amended lease contains covenants restricting, among other things, the incurrence of debt, capital expenditures that can be made by the Company, and the payment of dividends. As of December 31, 2004, the Company was in compliance with the covenants.

In August 2004, the Company amended the terms of its amended and restated master lease agreement with GECC. Under the amended terms, the Company pre-paid \$7.5 million and began cash interest payments in October 2004. Under the amended terms, the interest rate was lowered from 12% to 9% for the period September 2004 through September 2005. The Company paid approximately \$1.2 million of interest during the year ended December 31, 2004, related to this agreement.

The Company entered into an agreement to transfer its rights at closing to acquire four of the CWA data centers and one office facility to Du Pont Fabros for \$52.0 million paid directly to the CWA bankruptcy estate by Du Pont Fabros. The Company subsequently leased those facilities from Du Pont Fabros for approximately 15 years. Terms of the capital lease allowed for no cash payments for the first nine months of the lease. The effective interest rate on the transaction is approximately 17.5% over the 15 years of the lease. The first cash payment of \$0.8 million was made in December 2004 and represented a combination of rent and interest. The associated capital lease asset will be depreciated over the approximate remaining useful life. The capital lease asset was recorded at its \$52.0 million fair value as the present value of the minimum lease payments exceeded its fair value.

The balance of all capital lease obligations as of December 31, 2004, and 2003 are \$114.0 million and \$56.9 million, respectively.

Amortization of assets recorded under capital leases is disclosed in Note 6, Property and Equipment.

NOTE 11—OPERATING LEASES

The Company leases communications and office equipment and office space under various operating leases. The increase from December 31, 2003, primarily relates to the assumption of operating leases as a result of the CWA acquisition. Future minimum lease payments as of December 31, 2004, are as follows:

2005	\$ 58,161
2006	56,449
2007	53,672
2008	51,524
2009	48,746
Thereafter	174,724
Total	<u>\$443,276</u>

Rental expense under operating leases for 2004, 2003, and 2002 was \$48.3 million, \$15.4 million, and \$14.4 million, respectively. The Company has various operating leases for facilities and equipment. Equipment lease terms are approximately three years, and the facility leases range from 3 to 15 years. These facility leases include rent increases and in certain cases rent holidays. Any applicable rent increases or rent holidays are recorded on a straight-line basis over the initial lease term. Leasehold improvements are amortized over the initial lease term of the applicable lease.

The Company is party to various operating leases entered into in the ordinary course of business. No contingent rentals exist in these leases. All rent holidays and rent escalations are recorded on a straight-line basis over the initial term of the lease.

NOTE 12—OTHER ACCRUED LIABILITIES

The following table summarizes the components of current and non-current other accrued liabilities as of December 31, 2004, and 2003. The principal reason for the change since December 31, 2003, is the assumption of liabilities as a result of the CWA acquisition and the related purchase accounting adjustments.

	DECEMBER 31,	
	2004	2003
Current other accrued liabilities:		
Wages, employee benefits, and related taxes	\$17,786	\$ 3,652
Deferred revenue	9,267	3,815
Other taxes	7,794	2,758
WAM!NET earn-out	1,353	4,600
Acquired contractual obligations in excess of fair value and other	9,995	—
Accrued professional fees	3,234	752
Accrued integration costs	4,389	—
Accrued outside services	6,194	1,530
Other current liabilities	6,138	5,522
Total current other accrued liabilities	<u>\$66,150</u>	<u>\$22,629</u>
Non-current other accrued liabilities:		
Deferred revenue	\$ 2,201	\$ 2,453
Deferred rent	6,695	4,029
Facility restructuring	5,412	6,439
Acquired contractual obligations in excess of fair value and other	31,917	—
Asset retirement obligation	19,157	—
Other non-current liabilities	3,224	6,327
Total non-current other accrued liabilities	<u>\$68,606</u>	<u>\$19,248</u>

NOTE 13—INCOME TAXES

The Company incurred operating losses from inception through December 31, 2004 and, therefore, has not recorded a provision for income taxes.

No United States or foreign income taxes were provided for the years ended December 31, 2004, 2003 and 2002, respectively, as the potential deferred tax benefit, resulting primarily from the net operating losses, was fully offset by a valuation allowance against such deferred tax benefit.

At December 31, 2004 and 2003, the Company recorded a valuation allowance of \$242.0 million and \$185.2 million, respectively, against the net deferred tax asset due to the uncertainty of its ultimate realization. The valuation allowance increased by \$56.8 million from December 31, 2003 to December 31, 2004 and increased by \$29.4 million from December 31, 2002 to December 31, 2003.

The components of deferred income tax assets and liabilities are as follows at December 31:

	2004	2003
Deferred income tax assets:		
Net operating loss carry-forwards	\$ 225,721	\$ 166,032
Asset impairment	—	7,847
Deferred revenue	2,173	144
Fixed assets	—	2,689
Accrued payroll	2,900	496
Allowance for doubtful accounts	6,527	1,062
Other	9,119	6,960
Gross deferred tax assets	246,440	185,230
Deferred income tax liabilities:		
Fixed assets	4,404	—
Other	—	—
Gross deferred tax liabilities	4,404	—
Total deferred tax assets, net	242,036	185,230
Valuation allowances	(242,036)	(185,230)
Net deferred tax assets	\$ —	\$ —

The components of income/(loss) before income taxes consist of the following:

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
Domestic operations	\$(152,174)	\$(100,139)	\$ 37,970
Foreign operations	3,376	6,106	(24,038)
Total income/(loss) before income taxes	\$(148,798)	\$ (94,033)	\$ 13,932

An ownership change as defined in Section 382 of the Internal Revenue Code, restricts the Company's ability to use future United States taxable income against the Company's United States net operating loss carry-forward. Section 382 may also limit the utilization of other United States carry-over tax attributes upon the occurrence of an ownership change. Such an ownership change occurred in 2002 as a result of the issuance of \$203.1 million of preferred stock. Management believes that this limitation restricts our ability to offset any future United States taxable income against its net operating loss carry-forward over the United States Statutory carry-forward periods ranging from 15 to 20 years, to approximately \$4.8 million a year before the net effect of future recognized "built-in" gains or losses existing as of the date of the ownership change.

At December 31, 2004, the Company has approximately \$550.5 million in United States net operating loss carry-forwards expiring between 2009 and 2024, of which it estimates \$253.2 million is subject to the Section 382 limitation.

At December 31, 2004, net operating loss carry-forwards for our foreign subsidiaries are about \$44.0 million primarily from the United Kingdom, Singapore, Germany, Australia and Hong Kong. The aforementioned countries each have unlimited carry-forward periods.

The effective income tax rate differed from the statutory federal income tax rate as follows:

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
Federal statutory rate	34%	34%	34%
State taxes, net of federal benefit	4	4	4
Change in valuation allowance primarily due to net operating loss carry-forwards	(36)	(25)	(72)
Non-deductible goodwill amortization	—	—	5
Non-deductible compensation and permanent items	(2)	(13)	29
Effective income tax rate	—	—	—

On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. The Company may elect to apply this provision to qualifying earnings repatriations in either 2004 or 2005. On December 21, 2004, the FASB issued FASB staff position, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FAS 109-2). FAS 109-2 allows companies additional time to evaluate the effect of the law on whether unrepatriated foreign earnings continue to qualify for SFAS 109's exception to recognizing deferred tax liabilities and would require explanatory disclosures from those who need the additional time. Through December 31, 2004, SAVVIS has not provided deferred taxes on foreign earnings because such earnings were intended to be indefinitely reinvested outside the U.S. The Company has started an evaluation of the effects of the repatriation provision; however, the Company does not expect to be able to complete this evaluation until after Congress or the Treasury Department provide additional clarifying language on key elements of the provision. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional clarifying language. The range of possible amounts that the Company is considering for repatriation under this provision is between zero and \$9.5 million. Due to the existence of NOLs and corresponding valuation allowance, the related potential range of income tax effect of such repatriation cannot be reasonably estimated.

NOTE 14—ASSET RETIREMENT OBLIGATIONS

The Company adopted Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations" on January 1, 2003, without material impact on the consolidated financial statements.

The CWA transaction included the recognition of an asset retirement obligation (ARO) related to the rehabilitation and removal of certain leasehold improvements at the end of certain leases to return the property to its original condition. This \$19.2 million liability is reflected as a non-current liability on the Company's balance sheet. The associated asset was recorded to the opening balance sheet reflecting the preliminary purchase price allocated to the fair value of the ARO cost and will be depreciated over the useful life of the related asset which was approximately seven years, using the straight-line method. There are no cash flows related to this liability expected in the near term. The legal obligation relates to the end of the lease term in all cases. The weighted average life of the leases is approximately seven years.

The following table provides a reconciliation of the ARO:

Balance at January 1, 2004	\$ —
CWA ARO acquired	16,762
Accretion expense	2,395
Balance at December 31, 2004	\$19,157

NOTE 15—RETIREMENT SAVINGS PLAN

The Company has a 401(k) retirement savings plan for the benefit of qualified employees. All active employees at least 21 years of age are eligible to participate and may contribute a portion of their compensation to the plan. The Company matches 50% of employee contributions up to a maximum of 6% of total compensation. Company contributions under this plan vest ratably over three years. The Company expensed \$2.6 million, \$0.9 million, and \$0.6 million for 2004, 2003, and 2002, respectively, for employer matching contributions.

NOTE 16—EMPLOYEE STOCK OPTIONS

In 2003, the Company's Board of Directors adopted the 2003 Incentive Compensation Plan (the 2003 Plan) and authorized 20 million shares of common stock to be available under the 2003 Plan. In addition to stock options, the 2003 Plan provides for the grant of stock appreciation rights, restricted stock, unrestricted stock, stock units, dividend equivalent rights and cash awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of annual or long-term performance goals. Stock options granted under the 2003 Plan may be non-qualified stock options or incentive stock options. Stock options were granted under the 2003 Plan beginning June 2003. In 2004, the Company's Board of Directors and its stockholders approved the authorization of an additional 20 million shares of common stock to be available under the 2003 Plan.

Prior to the 2003 Plan, the Company's Board of Directors had adopted the 1999 Stock Option Plan (the 1999 Plan) in 1999, which only provided for the grant of stock options, and authorized 12 million stock options to be granted under the 1999 Plan. In 2002, the Board of Directors amended the 1999 Plan to 46 million shares available for grant. Subsequent to June 2003, no shares were granted from the 1999 Plan.

The following table summarizes the Company's stock option activity (for both the 2003 Plan and the 1999 Plan) and related information for the years ended December 31, 2004, 2003, and 2002:

	2004		2003		2002	
	WEIGHTED AVERAGE EXERCISE		WEIGHTED AVERAGE EXERCISE		WEIGHTED AVERAGE EXERCISE	
	OPTIONS	PRICE	OPTIONS	PRICE	OPTIONS	PRICE
<i>(in thousands, except weighted average amounts)</i>						
Outstanding at beginning of year	39,320	\$1.10	34,979	\$1.14	2,964	\$6.20
Granted	20,743	1.25	9,324	0.74	34,644	0.72
Exercised	(3,474)	0.63	(2,419)	0.59	(110)	0.50
Cancelled/Forfeited	(4,731)	2.40	(2,564)	1.16	(2,519)	3.08
Outstanding at end of year	51,858	\$1.07	39,320	\$1.10	34,979	\$1.14
Exercisable at end of year	14,514	\$1.24	10,446	\$1.87	1,662	\$6.03

The following table summarizes information regarding stock options outstanding and exercisable (for both the 2003 Plan and the 1999 Plan) at December 31, 2004 (in thousands, except weighted average amounts):

EXERCISE PRICE RANGE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.31-\$ 0.73	6,318	7.76 years	\$0.46	3,259	\$0.46
0.74- 0.75	22,041	7.19 years	0.75	9,606	0.75
0.76- 1.22	13,069	9.50 years	1.03	510	1.07
1.23- 24.00	10,430	9.06 years	2.17	1,139	7.59
\$0.31-\$24.00	51,858	8.22 years	\$1.07	14,514	\$1.24